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SUBJECT: QIZ MANAGERS COMPLAIN ABOUT GOJ LABOR CRACKDOWN

REF: A. AMMAN 3401

[B](#). AMMAN 6886

[C](#). AMMAN 8318

[1](#). (SBU) SUMMARY: U.S. garment buyer representatives, QIZ estate owners, and factory operators have started to complain in recent weeks about the state of Jordan's QIZ industry. Contacts say they are losing revenue as costs rise and machines sit idle with no workers available. Some owners have halted growth plans and others are terminating space rental contracts.

[2](#). (SBU) Citing the lengthy delay imposed by the Ministry of Labor (MoL) in processing foreign work visas, the recent rise in the minimum wage, and plans to double the annual foreign worker permit fee, many in the QIZ business community are planning to leave Jordan. Estate owners and factory operators say they were committed to hiring Jordanians in the long-term, and were willing to work with the GoJ to attract more local workers. But actions by the GoJ to restrict the flow of foreign labor and raise the cost of doing business are hitting the companies hard. With no trained, local labor pool available, many say they are looking at expanding or setting up operation in Egypt. COMMENT: These complaints clearly represent only the business owners' side of the story. For its part, the GoJ's long term vision for the sector is not yet clear; GoJ decision makers continue to grapple with the immediate problems at hand and have yet to reach a consensus about the future. END COMMENT AND SUMMARY.

BUYERS HESITANT TO PLACE ORDERS

[3](#). (SBU) Business stakeholders characterize the GoJ's response to the foreign worker exploitation issue as ruinous for business. Representatives from Jones NY, Inc., the sole American buyer with a permanent social compliance presence in Jordan, say they see little long-term vision or clarity in GoJ decisions related to QIZs. A still-existing informal ban on Bangladeshi work visas (reftel A), an expected doubling of the foreign worker permit fee, and rumors of radical wage re-definition (overtime, meal and lodging deduction amounts) in the labor reform bill expected to be introduced in Parliament, all make it difficult for Jones to complete cost analysis for 2007 orders. As a result, Jones representatives

say they are unsure what orders they can place today for 2007 delivery.

¶4. (SBU) A government that "makes decisions just like that" contrasts starkly with the long-term commitment and approach that his company has taken to Jordan, complained Kesava Murali, Jones lead compliance officer, in a October 31 phone conversation. NOTE: Jones NY also purchases for a number of other American buyers including Wal-Mart. As a result, it accounts for nearly 15% of all QIZ textile exports. END NOTE.

Murali contrasted GoJ actions that he described as misdirected, over-reactive, and hurting the entire industry, with his company's slow and methodical approach in coaxing factory owners to improve worker hours, benefits, and collective bargaining capability rather than cancel orders when they find problems. According to Murali, the GoJ needs to start thinking about how to nudge some bad players onto the right path, and incorporate gradual change in a transition to a complete Jordanian work force "or there won't be a QIZ sector in Jordan in one year's time" for a Jordanian work force to enter.

¶5. (SBU) Murali said individual GoJ decisions that target individual actors, or are explained and implemented as part of a larger strategy are not an issue. But when the government decides it needs to clean up, it cannot be haphazard and punish everyone, Murali argued. He criticized the GoJ's decision to start moving workers randomly from factories with citations to ones with few or no citations, and creating a 'Golden List' that gives listed factories easier access to foreign labor without fully vetting them. In addition, not publicly declaring a worker visa ban - but enforcing one nonetheless - punishes everyone rather than

AMMAN 00008341 002 OF 003

just "the bad apples." The lack of a pro-business, long-term vision for the sector that addresses rising costs and labor shortages is also disturbing to Murali. For these reasons, Murali continued, Jones is now looking at operations in Egypt, not Jordan, as a place to grow business.

FACTORIES: NO ONE TO MAN THE MACHINES

¶6. (SBU) A shortage of affordable labor remains the biggest complaint raised by most employers about Jordan's booming economy. With the Ministries of Labor and Interior admittedly taking deliberate steps to slow down the entry of foreign workers, the almost complete dearth of local, skilled textile workers has become an even more acute problem for the QIZ textile sector given its size (almost 90% of the \$1 billion QIZ exports to the US and 80% of the \$1.2 billion of total exports to the US) and heavy reliance on foreign labor (60% plus of the 60,000 employees). According to projections from the Ministry of Industry and Trade, the sector requires an additional 8-10,000 workers to meet growth demands, while replacement of current foreign workers whose visas are expiring is close to 30,000. According to factory owners, government action to cut off foreign labor is only exacerbating the labor problem.

¶7. (SBU) The GoJ's decision to limit the number of foreign workers in the sector is forcing many factories to operate at 50% capacity or less. The MoL's plan to consider raising the cost of foreign worker permit fees is forcing many factory operators to consider leaving. According to Muhammad Mansoor Khawaja, a Pakistani investor in the QIZs who has lived in Jordan for seven years, "this is the beginning of the end." As proof, he named at least four factories that were freezing expansion plans in the Al-Tajamouat QIZ, with others moving their management to Egypt at the invitation of Egyptian government officials, to explore options there "where the bureaucracy was a lot less and investors are respected."

¶8. (SBU) R.F. Edirisinghe Athulla, a well-respected Sri Lankan factory operator whose company EAM Maliban has

invested \$25 million in a modern factory in the Ad-Dulayl QIZ estate told EconOff October 24 that the labor shortage was having a major impact on business. He cited the same four companies in the Al-Tajamouat QIZ who intend to leave Jordan.

Athulla also believes the labor shortage is a byproduct of bad government policy implemented over the past five years. With an official unemployment rate of 15% in Jordan and with the government having spent close to \$60 million in vocational training program, he said the results of Jordanian labor placement efforts in QIZs are abysmal. NOTE: In recent discussions, the GoJ has begun to recognize that a revamping of the entire vocational training centers (VTC) system is required to improve the employability of Jordanians. END NOTE.

¶9. (SBU) Athulla argued the GoJ should provide benefits such as transport, lodging, and housing to entice Jordanians to work in QIZ factories. Asked why this was the state's rather than the factory's responsibility, Athulla responded that his factory, like many others, was placed in remote QIZs in hopes of developing the local economy there. Unfortunately, the growth of the factories has far outstripped the local labor pool. Few Jordanians have moved in to fill the void. Athulla says the factories alone cannot provide incentives to draw in workers from other regions. If the government builds housing, his factory would provide meals for Jordanian workers. Yet the government has proposed doubling the foreign worker permit fee to pay for such benefits. Athulla sees this as another short-sighted strategy as it will slowly kill businesses and force investors to leave.

ESTATE OWNERS: PLENTY OF ROOM IN THE INN

¶10. (SBU) In a November 1 meeting, co-CEOs of the Al-Tajamouat QIZ, Halim Salfiti and Ramiz Manneh, cited numerous actions by the GoJ that they say are causing the

AMMAN 00008341 003 OF 003

closure of factories representing 8,000 jobs in their QIZs, half of Al-Tajamouat's total capacity. According to Salfiti and Manneh, failure to attract more Jordanians to the sector has stunted growth over the past year. As a result, their QIZ has had no new construction, and up to 30% of available work space and dormitories currently sit empty. Factory owners who usually sign 3-year leases are now trying to cancel contracts, operating month-to-month, or, in a best-case scenario, signing only 6-month extensions.

¶11. (SBU) Salfiti said though he understands the GoJ wants more Jordanians to work in the sector, a complete shut-off of foreign workers is not the answer. His estate has a three-member team dedicated to finding Jordanian workers. The process is difficult, and requires discussions with outlying village mayors and with families with employable daughters, as well as bringing in parents to tour the factories and see working conditions. Jordanians must also be convinced to participate for the first time in an industrial-based economy with a focus on ethics, team dynamics, efficiency, and on-time delivery. As a result, the team recruits and retains about 40 Jordanians a month while the need reaches well into the thousands. Salfiti welcomes government support in attracting Jordanian workers but says more than training and transportation is needed.

¶12. (SBU) According to Salfiti, the government's short-term ban on foreign workers is an "over-reaction that has created a major problem." In a tour of several factories with Manneh, EconOffs saw that the major factories in the estate were operating at 50% capacity or less. Hundreds of sewing machines and worker lines sat empty. Discussions with factory managers affirmed Salfiti's comments that many were planning to leave if the difficulty in obtaining foreign workers is not eased or if costs continue to rise. Manneh pointed to the cascading effect of factory operators leaving as the departures also hit supporting businesses owned by

Jordanians, including phone calling card stores, small groceries, and restaurants catering to QIZ workers.

¶13. (SBU) COMMENT: Representing 80% of Jordan's \$1.2 billion plus in annual exports to the U.S., the concerns of textile manufacturers must be taken seriously. It is hard to gauge how dire the situation in the QIZs really is, but there is no doubt that a number of businesses are considering pulling up stakes and re-locating to potentially lower-cost locations. Post cannot yet judge whether this is a harbinger of a significant outflow of solid foreign investors, or merely 'good riddance' to investors who were not willing to pay a fair wage to bring in Jordanians to the workforce.

¶14. (SBU) While the buyers of garments produced in Jordan are happy with the quality, time delivery, and current price of the goods, labor shortages and rising costs are a growing burden. The GoJ will find it difficult to strike a balance between allowing more foreign workers to meet short-term demand while enticing Jordanians to work in the long term.

¶15. (SBU) As the GoJ thinks a long term strategy through, the Embassy will continue to urge the GoJ to actively engage business stakeholders and develop a longer-term strategy for the sector, and assist the GoJ to build a growing, diverse, competitive and business-enabling Jordanian economy in which workers' rights are fully respected.

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